

*Fulton Telephone Company*

*Follow-up Audit Number: HC-2009-FL070*

*(SAC Number: 280455)*

*Letter to management in connection with the  
performance audit for the Universal Service Fund  
disbursements made during the twelve-month period  
ended June 30, 2007*

Prepared for: Universal Service Administrative Company

As of Date: July 27, 2010

KPMG LLP

1601 Market Street

Philadelphia, PA 19103



KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

Fulton Telephone Company  
P O Box 1680  
Bay Springs, MS 38606

July 27, 2010

Ladies and Gentlemen:

We have conducted a performance audit to evaluate Fulton Telephone Company's, Study Area Code ("SAC") No. 280455, ("Beneficiary") compliance with the applicable requirements of 47 C.F.R. Part 54, Subparts C, D, and K, Part 36, Subpart F, and Part 32, Subpart B, of the Federal Communications Commission's ("FCC") Rules as well as FCC Orders governing Universal Service Support for the High Cost Program ("HCP") relative to disbursements, of \$887,664, made from the Universal Service Fund ("USF") during the twelve-month period ended June 30, 2007. Our work was performed during the period from April 21, 2010 to July 27, 2010 and our results are as of July 27, 2010.

During this performance audit we noted immaterial noncompliance items or matters that were not in our report dated July 27, 2010. These immaterial noncompliance items are presented for your consideration as comments and recommendations. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to result in improved compliance with the aforementioned requirements and are summarized, along with the views of management, in Attachment 1 of this letter. We did not conduct performance audit procedures over the views of management, and accordingly, we provide no conclusions over these views relative to our audit objective.

Our performance audit procedures are designed primarily to evaluate the Beneficiary's compliance with the aforementioned requirements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of Fulton Telephone Company's management and others within the organization, the Universal Service Administrative Company ("USAC") and the FCC, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

cc: USAC  
FCC

## **Attachment 1**

KPMG's performance audit procedures identified the following immaterial findings. The findings along with the criteria, cause, effect, recommendation and Beneficiary response are as follows:

### **1. HC-2009-FL070-C01: Lack of CPR Details:**

<b>Condition</b>	<p>The Beneficiary did not maintain CPRs, as of December 31, 2004, and December 31, 2005, in sufficient detail for the following accounts:</p> <ul style="list-style-type: none"><li>• General Support Facilities (Account 2110)</li><li>• C&amp;WF (Account 2410)</li></ul>
<b>Criteria</b>	<p>According to 47 C.F.R. § 32.12(b), "The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission."</p> <p>In addition, according to 47 C.F.R. § 54.202(e), "All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. These records should include the following: data supporting line count filings; historical customer records; fixed asset property accounting records; general ledgers; invoice copies for the purchase and maintenance of equipment; maintenance contracts for the upgrade of equipment; and any other relevant documentation. This documentation must be maintained for at least five years from the receipt of funding."</p> <p>Also, according to 47 C.F.R. § 32.2000(e)(2), "The basic property records must be: (i) Subject to internal accounting controls, (ii) auditable, (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and (iv) maintained throughout the life of the property."</p>
<b>Cause</b>	<p>The Beneficiary did not have an effective process in place to retain CPRs in sufficient detail, including identification of the date assets were placed in service, location of the property and work order number.</p>
<b>Effect</b>	<p>There is no monetary impact on the high cost disbursements received by the Beneficiary during the twelve-month period ended June 30, 2007. KPMG performed alternative testing procedures to assess the reasonableness of the asset balances reported as of December 31,</p>

2004 and December 31, 2005. However, the lack of sufficient financial records for capitalized assets impairs the Beneficiary's ability to readily identify the associated historical cost and accumulated depreciation when assets are sold, scrapped or otherwise retired.

**Recommendation** The Beneficiary should establish and follow an appropriate methodology to properly maintain CPRs in sufficient detail in accordance with applicable FCC Rules and Orders.

**Beneficiary's Response** Fulton will implement procedures to maintain the Continuing Property Records for its General Support Facilities and C&WF assets in sufficient detail for identification of the asset, date placed in service, location of the assets, and work order numbers.

**2. HC-2009-FL070-C02: Lack of Supporting Documentation for Assets**

**Condition** One (\$11,070) of the 45 assets selected for testing did not have supporting documentation. The sample item related to Digital Electronic Switching equipment (CARD STS-1 Interface) for a COE project.

**Criteria** According to 47 C.F.R. § 32.12(a) and (b), "The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts. The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts."

According to 47 C.F.R. § 32.2000(e)(2), "The Beneficiary's basic property records must be (i) subject to internal accounting controls, (ii) auditable, (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of the cost of service at any particular point of time and (iv) maintained throughout the life of the property."

In addition, according to 47 C.F.R. § 54.202(e), "All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. These records should include the following: data supporting line count filings; historical customer records; fixed asset property accounting records; general ledgers; invoice copies for the purchase and maintenance of equipment; maintenance contracts for the upgrade or equipment; and any other relevant documentation. This documentation must be maintained for at least five years from the receipt of funding."

<b>Cause</b>	The Beneficiary does not have effective policies and procedures in place to ensure that appropriate records are retained to support asset amounts.
<b>Effect</b>	<p>The exception identified above has an impact on HCL and LSS disbursements. The monetary impact of this finding relative to disbursements made from the USF for the HCP for the twelve-month period ended June 30, 2007 is estimated as follows:</p> <ul style="list-style-type: none"> <li>• HCL disbursements calculated in the 2004 and 2005 data submissions were approximately \$1,194 lower than the disbursements would have been had amounts been reported properly.</li> <li>• LSS disbursements calculated in the 2005 data submission were approximately \$731 higher than the disbursements would have been had amounts been reported properly.</li> </ul>
<b>Recommendation</b>	The Beneficiary should enhance processes governing record retention procedures to ensure compliance with FCC Rules and Orders.
<b>Beneficiary Response</b>	Fulton Telephone Company will review its record retention procedures to ensure they are in compliance with FCC Rules and Orders.

**3. HC-2009-FL070-C03: Incorrect Expense Amounts Reported on Cost Study Allocations**

<b>Condition</b>	The Beneficiary used incorrect expense amounts, by using balances as of December 31, 2004 and December 31, 2005, on the quarterly Part 64 Cost Study to allocate General Support Expenses and Depreciation Expense to the non-regulated activities in 2005-2 and 2006-3 HCL filings instead of using a rolling year balance. The expense adjustments for 2005-2 and 2006-3 HCL filings were overstated by \$1,100 and understated by \$535, respectively.
<b>Criteria</b>	According to 47 C.F.R. § 36.612, "Any rural telephone company, as that term is defined in §51.5 of this chapter, may update the information submitted to the National Exchange Carrier Association (NECA) on July 31st pursuant to §§36.611 (a) through (h) one or more times annually on a rolling year basis according to the schedule, except that rural telephone companies in service areas where an eligible telecommunications carrier has initiated service and has reported line count data pursuant to §54.307(c) of this chapter must update the information submitted to NECA on July 31st pursuant to §36.611(h) according to the schedule. Every non-rural telephone company must update the information submitted to NECA on July 31st pursuant to §36.611 (h) according to the schedule."

<b>Cause</b>	The Beneficiary used December 31 balances for General Support Expenses and Depreciation Expense instead of using rolling twelve-month expenses as of filing date, i.e., 3/31/2005 and 6/60/2006, respectively.
<b>Effect</b>	<p>The exceptions identified above have an impact on HCL disbursements. The monetary impact of this finding relative to disbursements made from the USF for the HCP for the twelve-month period ended June 30, 2007 is estimated as follows:</p> <ul style="list-style-type: none"> <li>• HCL disbursements calculated in the 2004 and 2005 data submissions were approximately \$79 lower than they would have been had amounts been reported properly.</li> </ul>
<b>Recommendation</b>	The Beneficiary should compute twelve-month expenses for the accounts that need Part 64 Cost Study adjustments.
<b>Beneficiary's Response</b>	Since the period of audit, Fulton's Cost Consultant, John Staurulakis, Inc. (JSI) has modified their review procedures to reflect the twelve month expense adjustments applicable to the respective filing.



Universal Service Administrative Company

High Cost and Low Income Division

### USAC Management Response

Date: August 4, 2010

Subject: Improper Payment Information Act (IPIA) Audit of the High Cost Program of  
FULTON TEL CO, HC-2009-FL-070, Follow-up Audit to HC-2007-234

USAC management has reviewed the IPIA Performance Audit of FULTON TEL CO ("the Carrier"), SAC 280455. The audit firm KPMG LLP has issued recommendations in its follow-up audit report. Our response to the audit is as follows:

#### **Finding 1**

##### **Condition:**

Centralized cost allocations (Management Fees) charged by the Operating Company to the Beneficiary totaling \$2,347,940 per year in 2004 and 2005 were improperly computed. The Operating Company utilized fully distributed cost methodology to arrive at estimated centralized costs to be allocated to the Beneficiary and its affiliates, based on the Operating Company's 2003 financial statements. (please see audit report)

##### **Management Response:**

USAC High Cost management concurs with the auditor. Failure to submit accurate financial data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC recognizes that the Carrier committed to addressing its internal controls related to this finding, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at [hcaudits@usac.org](mailto:hcaudits@usac.org) when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$385,312.

#### **Finding 2**

##### **Condition:**

NexBand did not utilize a fully distributed cost methodology to calculate B&C charges to the Beneficiary for 2004 and 2005.

The Beneficiary incurred B&C costs of \$360,919 and \$309,475 for customer and CABS billing, respectively, in 2004 and \$328,555 and \$286,921 for customer and CABS billing, respectively, in 2005.

The Beneficiary provided KPMG with example customer bills which indicated charges of \$3.00 for customer B&C service and \$2.55 for CABS B&C services.

KPMG was unable to obtain supporting documentation from the Beneficiary for these costs. Accordingly, to assess the reasonableness of the B&C costs, KPMG obtained a comparable contract for a beneficiary with a similar B&C arrangement with its affiliate. In this instance the affiliate charged \$1.50 per customer bill under a fully distributed cost methodology, representing 50% of amount charged by NexBand to the Beneficiary.

We were unable to identify a similar contract for CABS billing. Accordingly, we utilized the ratio noted above to create an estimated fully distributed cost amount for CABS billing. Using the 50% factor, NexBand CABS billing would be approximately \$1.28 per invoice.

**Management Response:**

USAC High Cost management concurs with the auditor. Failure to submit accurate financial data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC management directs the Carrier to implement internal controls necessary to review and reconcile source documentation and reported USF data prior to their submittal, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at [hcaudits@usac.org](mailto:hcaudits@usac.org) when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$14,137.

**Finding 3**

**Condition:**

The Beneficiary did not allocate Property Taxes related to GSF assets used in the conduct of non-regulated activities in 2004 and 2005 as required. The Beneficiary allocated 3% of GSF Assets and related, Accumulated Depreciation, Depreciation Expense and General Support Expenses to non-regulated activities but failed to allocate related Property Taxes. Property Tax balances in 2004 and 2005 were \$81,188 and \$91,712, respectively.

**Management Response:**

USAC High Cost management concurs with the auditor. Failure to submit accurate financial data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC recognizes that the Carrier committed to addressing its internal controls related to this finding, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at [hcaudits@usac.org](mailto:hcaudits@usac.org) when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$1,254.

**Finding 4**

**Condition:**

The Beneficiary did not record the income tax impacts of Part 64 Cost Study expense adjustments when reporting the respective regulated expense amounts on the USF Forms as required.

**Management Response:**

USAC High Cost management concurs with the auditor. Failure to submit accurate financial data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC recognizes the Carrier has addressed its internal controls related to this finding.

**Finding 5**

**Condition:**

The Beneficiary's Federal and State Income Tax expense was overstated in 2004 by \$8,568 and understated in 2005 by \$2,195 in its accounting records and USF Forms.



**Management Response:**

USAC High Cost management concurs with the auditor. Failure to submit accurate financial data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC recognizes that the Carrier committed to addressing its internal controls related to this finding, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at [hcaudits@usac.org](mailto:hcaudits@usac.org) when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$1,056.

**Comment 1**

**Condition:**

The Beneficiary did not maintain CPRs, as of December 31, 2004, and December 31, 2005, in sufficient detail for the following accounts:

- General Support Facilities (Account 2110)
- C&WF (Account 2410)

**Management Response:**

USAC High Cost management concurs with the auditor. The Carrier does not have documentation consistent with Part 32 rules necessary to support account data reported in its filings with the National Exchange Carrier Association (NECA) and USAC.

USAC recognizes that the Carrier committed to addressing its internal controls related to this comment, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at [hcaudits@usac.org](mailto:hcaudits@usac.org) when submitting this information.)

USAC notes that the auditor found no monetary effect so there is no recovery of funds required.

**Comment 2**

**Condition:**

One (\$11,070) of the 45 assets selected for testing did not have supporting documentation. The sample item related to Digital Electronic Switching equipment (CARD STS-1 Interface) for a COE project.

**Management Response:**

USAC High Cost management concurs with the auditor. The Carrier does not have documentation consistent with Part 32 rules necessary to support account data reported in its filings with the National Exchange Carrier Association (NECA) and USAC.

USAC recognizes that the Carrier committed to addressing its internal controls related to this comment, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at [hcaudits@usac.org](mailto:hcaudits@usac.org) when submitting this information.)

**Comment 3**

**Condition:**

The Beneficiary used incorrect expense amounts, by using balances as of December 31, 2004 and December 31, 2005, on the quarterly Part 64 Cost Study to allocate General Support Expenses and Depreciation Expense to the non-regulated activities in 2005-2 and 2006-3 HCL filings instead of using a rolling year balance. The expense adjustments for 2005-2 and 2006-3 HCL filings were overstated by \$1,100 and understated by \$535, respectively.

**Management Response:**

USAC High Cost management concurs with the auditor. Failure to submit accurate financial data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC recognizes the Carrier has addressed its internal controls related to this comment.

**Audit Recovery Total**

	HCL	LSS	ICLS	Finding Total
Finding 1	\$201,308	34,543	149,461	385,312
Finding 2	-	5,913	8,224	14,137
Finding 3	718	63	473	1,254
Finding 4	(2,750)	(342)	-	(3,092)
Finding 5	1,056	-	-	1,056
Comment 2	(1,194)	731	-	(463)
Comment 3	(79)	-	-	(79)
Mechanism Total	\$199,059	40,908	158,158	\$398,125

As the auditor has provided a combined monetary effect for all findings and USAC management does not dispute any of the findings, USAC will recover **\$398,573** instead of \$398,125.

This concludes the USAC management response to the audit.



Universal Service Administrative Company

## High Cost and Low Income Division

By Certified Mail, Return Receipt Requested

October 5, 2010

Stephanie Hand  
Controller  
Fulton Telephone Company  
PO Box 1680  
Bay Springs, MS 39422

Re: Action to be Taken Resulting from High Cost Audit of Fulton Telephone Company (SAC 280455) Audit Report HC-2009-FL-070, Follow-up Audit to HC-2007-234

Dear Stephanie Hand:

A follow-up audit of Fulton Telephone Company for Study Area Code (SAC) 280455 was conducted on behalf of the USAC Internal Audit Division (IAD) and the Federal Communications Commission (FCC) Office of Inspector General (OIG) for the period July 1, 2006 through June 30, 2007. The final report from that follow-up was sent to the company on September 28, 2010.

As is USAC's policy with adverse or disclaimer opinions, the follow-up audit was required to quantify the monetary effect of audit HC-2007-234 conducted by KPMG LLP. The effect quantified will result in a recovery of \$398,573 of High Cost support for SAC 280455. Please refer to the audit report for details on the funds being recovered. USAC will recover these funds from your December 2010 High Cost support payment, which will be disbursed at the end of January 2011.

Consistent with current administrative practice, if the recovery amount exceeds the company's disbursement for that month, USAC will continue to offset the remaining recovery amount balance against subsequent High Cost support disbursements until such time as the full amount is recovered. If necessary, USAC reserves the right to invoice and collect any remaining amounts owed.

As is the case with any decision of the USF administrator, you have the right to appeal this decision directly to the FCC pursuant to 47 C.F.R. § 54.719. The appeal must be filed within 60 days of the date of this letter as required by 47 C.F.R. § 54.720(a) and must conform to the filing requirements of 47 C.F.R. § 54.721. Additional information about the FCC appeals process may be found at <http://www.usac.org/hc/about/filing-appeals.aspx> under "OPTION B."

Sincerely,

Craig Davis  
Director, High Cost

**Per Access Line End User Billing - Sample**

	Company A	Company B	Company C	Company D	Company E
	Jan 09	Jan 09	Jan 09	Jan 09	Jan 09
<b><i>End User Customer Billing</i></b>					
Monthly Expense	3,724.22	4,968.82	1,078.24	6,158.50	25,135.75
Access Lines	1,250	1,455	305	1,870	7,800
<b>End User per Access Line</b>	<b>2.98</b>	<b>3.41</b>	<b>3.54</b>	<b>3.29</b>	<b>3.22</b>

\*Main billing functions include the following (per line, per month basis)

Postage	\$ 0.78
Pre-sort	\$ 0.01
Message Processing	\$ 0.93
Billing Form	\$ 0.08
Meet Point Billing Extract	\$ 0.05
Processing/Computer/Programming Fees	\$ 0.53
Barcoding	\$ 0.03
Printing Bills/PDF Bills on CD/Duplicates	\$ 0.55
Insert & Fold Bills	\$ 0.13
Envelopes	\$ 0.09
Sales Tax	\$ 0.09

*Prepared by John Staurulakis, Inc.  
on August 24, 2010*

# CABS Sample

<b>CABS</b>	Company A	Company B	Company C
	12/31/09	12/31/2009	12/31/2009
Monthly Expense	19,724	3,518	13,524
Access Lines	8,400	1,690	7,850
<b>Per Access Line</b>	<b>2.35</b>	<b>2.08</b>	<b>1.72</b>

*Prepared by John Staurulakis, Inc.  
on August 25, 2010*



Universal Service Administrative Company

Received & Initialed

OCT 02 2010

High Cost and Low Income Division

FCC Mail Room

By Certified Mail, Return Receipt Requested

October 5, 2010

Stephanie Hand  
Controller  
Fulton Telephone Company  
PO Box 1680  
Bay Springs, MS 39422

Re: Action to be Taken Resulting from High Cost Audit of Fulton Telephone Company (SAC 280455) Audit Report HC-2009-FL-070, Follow-up Audit to HC-2007-234

Dear Stephanie Hand:

A follow-up audit of Fulton Telephone Company for Study Area Code (SAC) 280455 was conducted on behalf of the USAC Internal Audit Division (IAD) and the Federal Communications Commission (FCC) Office of Inspector General (OIG) for the period July 1, 2006 through June 30, 2007. The final report from that follow-up was sent to the company on September 28, 2010.

As is USAC's policy with adverse or disclaimer opinions, the follow-up audit was required to quantify the monetary effect of audit HC-2007-234 conducted by KPMG LLP. The effect quantified will result in a recovery of \$398,573 of High Cost support for SAC 280455. Please refer to the audit report for details on the funds being recovered. USAC will recover these funds from your December 2010 High Cost support payment, which will be disbursed at the end of January 2011.

Consistent with current administrative practice, if the recovery amount exceeds the company's disbursement for that month, USAC will continue to offset the remaining recovery amount balance against subsequent High Cost support disbursements until such time as the full amount is recovered. If necessary, USAC reserves the right to invoice and collect any remaining amounts owed.

As is the case with any decision of the USF administrator, you have the right to appeal this decision directly to the FCC pursuant to 47 C.F.R. § 54.719. The appeal must be filed within 60 days of the date of this letter as required by 47 C.F.R. § 54.720(a) and must conform to the filing requirements of 47 C.F.R. § 54.721. Additional information about the FCC appeals process may be found at <http://www.usac.org/hc/about/filing-appeals.aspx> under "OPTION B."

Sincerely,

Craig Davis  
Director, High Cost



High Cost and Low Income Division

*Certified Mail, Return Receipt Requested*

September 28, 2010

RE: Results of the Follow-Up Audit to the 2007-2008 Federal Communications  
Commission (FCC) Office of the Inspector General (OIG) Audit

Dear Beneficiary:

Enclosed are the finalized report from, and the USAC High Cost Management Response to, the follow-up audit to your FCC OIG audit. Included in the High Cost Management Response may be directives required for the closure of audit findings and/or comments. Please complete any such follow-up measures and provide documentation of corrective actions to USAC High Cost within 60 days of receipt of this letter, if applicable.

As is the case with any administrative decision made by USAC, you have the right to appeal findings and/or comments within the audit and High Cost Management Response. You may appeal to USAC or the FCC, and the appeal must be filed within 60 days of receipt of this letter. Additional information about the appeals process may be found at <http://www.usac.org/hc/about/filing-appeals.aspx>.

If you have any questions, please contact the High Cost Program at 202-776-0200 or [hcaudits@usac.org](mailto:hcaudits@usac.org). Please direct all High Cost audit correspondence to either the e-mail address above or:

USAC  
Attn: HC Audits  
2000 L Street, NW  
Suite 200  
Washington, DC 20036

Sincerely,

*High Cost Program Management*

Enclosure: Final Audit Report



Fulton disputes KPMG's claim that NexBand is an affiliate of Fulton. Pursuant to 47 C.F.R. § 32.27(c)(2), "when services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. . . ." Fulton does not dispute that services purchased from an affiliate must be recorded at fully distributed cost, rather Fulton contends that NexBand does not meet the plain meaning of the definition of an "affiliate" as defined in 47 U.S.C. 153(2) and 47 C.F.R. § 153 (1) which state that "[t]he term "affiliate" means a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person." "For purposes of this paragraph, the term "own" means to own an equity interest (or the equivalent thereof) of more than 10 percent." 47 U.S.C. 153(2); 47 C.F.R. § 153 (1). NexBand is not an affiliate of Fulton because the owners of NexBand do not in any way own or control Fulton. Also, the audit cites 47 C.F.R. § 32.27(c)(3), which states that "[a]ll services received by a carrier from its affiliates(s) that exist solely to provide to members of the carrier's corporate family shall be recorded at fully distributed costs." Fulton contends that NexBand does not meet the definition of an affiliate, so §32.27(c)(3) does not apply. However, even if NexBand was considered an affiliate, it provided services to a company other than those in Fulton's corporate family, so this particular provision requiring the use of fully distributed costs also does not apply.

Fulton is fully owned by Fail, Inc., which is a wholly owned subsidiary of Fail Telecommunication Corporation. Fail Telecommunication Corporation is owned by Charles Fail and Dorothea Fail. NexBand is owned by Donna Alexander and Cy Fail, the son and daughter of Charles and Dorothea Fail. The auditors argue in their report that NexBand's services to Fulton should be evaluated under affiliate transaction rules "due to the close business and familial relationships between the owners of Fail, Inc. and NexBand. More specifically, the owner of NexBand is an employee of [Fail Inc.] and is also the daughter of the owner of Fail Telecommunications, Inc. [sic]."

While it is true that the owners of NexBand are related to the owners of Fail, Inc. and work for Fail, Inc., such a relationship does not meet the plain meaning of the definition of an affiliate because the owners of NexBand do not in any way directly or indirectly own or control Fail, Inc., Fulton, or Fail Telecommunication Corporation. Charles and Dorothea Fail have complete, ultimate, and exclusive control of Fail, Inc. and Fulton.





YOUNG WILLIAMS P.A.  
*Attorneys at Law*

Donna Alexander and Cy Fail are merely employees of Fail, Inc., and have no voice or control over its management activities either directly or indirectly. Donna Alexander and Cy Fail clearly do not meet the definition of "own" or "control." The only way to own or control a company is by owning shares of stock in that company. Neither Donna nor Cy owns any shares of stock in Fail, Inc., Fulton, or Fail Telecommunication Corporation, so they clearly do not fall within the definition of "own" in the statute, which requires owning an equity interest of more than ten percent.

NexBand fails to meet the definition of "affiliate" because NexBand is owned by Donna Alexander and Cy Fail whereas Fulton, Fail Telecommunication Corporation and Fail, Inc. are owned by Charles and Dorothea Fail. Further, NexBand did not exist "solely to provide services to members of the carrier's corporate family" as alleged by the audit. During the period of this audit, NexBand also provided services to a telephone company that was wholly unrelated to Fulton and its corporate family. Therefore, 47 C.F.R. §32.27(c)(3), which would require Fulton to use a fully distributed cost methodology, does not apply.

NexBand may not be considered an affiliate simply because Donna Alexander and Cy Fail are employed by and related to the owners of Fail, Inc. KPMG's allegations of "close business and familial relationships" between the owners of Fail, Inc. and NexBand in no way cause NexBand to meet the plain meaning of the definition of "affiliate." The auditors are not allowed to use their own interpretation of affiliate; rather, they must follow the clearly stated terms set out in the definition in the statute. When interpreting the meaning of statutes, the United States Supreme Court has held that one must "begin with the familiar canon of statutory construction that the starting point for interpreting a statute is the language of the statute itself. Absent a clearly expressed legislative intention to the contrary, that language must ordinarily be regarded as conclusive." *Consumer Prod. Safety Comm'n v. GTE Sylvania*, 447 U.S. 102, 109 (1980). Based on the plain meaning of the definition of affiliate Fulton and NexBand are not "affiliates." Accordingly, USAC is not entitled to recover \$14,137.00 that they allege Fulton owes.

Additionally, even if a fully distributed cost methodology did apply to the billing and collection charges from NexBand to Fulton, the costs paid by Fulton were reasonably in range with billing and collection costs of other similarly situated companies. Fulton obtained a comprehensive analysis of the cost of end user customer billing per access line and carrier access



billing per access line from John Staurulakis, Inc. ("JSI"), a nationally renowned telecommunications consulting company. The data from JSI showed clearly that Fulton's payments of \$3.00 per access line for NexBand's end user customer billing and \$2.55 per access line for NexBand's carrier access billing systems were in the same range as prices paid by similarly situated telephone companies which were included in JSI's analysis. Please see attached for a copy of the analysis by JSI.

The audit alleges that Fulton should pay \$1.50 for customer billing and \$1.28 per for carrier access billing based on what the auditors call a "comparable contract" that they use as an example. These amounts are drastically less than the amounts supported by JSI's analysis. As shown by JSI's analysis, the average amount paid for per access line customer billing by similarly situated companies was \$3.29, and the average amount paid per access line by similarly situated companies for carrier access billing was \$2.05. NexBand's charges of \$3.00 and \$2.55 were reasonable and KPMG's suggested billing amounts are not an accurate estimation of the cost of such services. Additionally, the auditors were not aware of the billing features provided by NexBand. Such knowledge is necessary to obtain an accurate price for billing services. Also, the auditor's single contract was based on information from one particular company, whereas JSI's study was based on multiple similarly situated companies. The billing and collection costs paid by Fulton were reasonable based on amounts paid by similarly situated companies and based on the billing features received.

NexBand is not an affiliate of Fulton according to the plain meaning of "affiliate" as defined in the United States Code and the Code of Federal Regulations, and therefore Fulton is not required to use a fully distributed cost methodology and is not required to repay USAC. Further, NexBand provided service to a company wholly unrelated to Fulton or its corporate family, so C.F.R. §32.27(c)(3) does not apply even if NexBand met the definition of an affiliate. Additionally, the costs charged by NexBand to Fulton are reasonable and supported by JSI's study of billing and collection costs paid by similarly situated companies. The costs argued by KPMG are not a realistic estimate of the costs charged to Fulton, nor was the sole "comparable contract" used by KPMG accurate due to KPMG's lack of knowledge of the billing features provided by NexBand.



I look forward to your response to this matter. You may contact me at the address contained herein or at my email address, [wellis@youngwilliams.com](mailto:wellis@youngwilliams.com). Should you have any questions, please do not hesitate to contact me.

Sincerely yours,



Sean Wesley Ellis

SWE:jsm

Enclosures

C: Universal Service Administrative Company, High Cost and Low Income Division, *with enclosures*  
Fulton Telephone Company, Inc., *with enclosures*



KPMG LLP  
1601 Market Street  
Philadelphia, PA 19103-2499

Fulton Telephone Company  
P O Box 1680  
Bay Springs, MS 38606

July 27, 2010

Ladies and Gentlemen:

We have conducted a performance audit to evaluate Fulton Telephone Company's Study Area Code ("SAC") No. 280455, ("Beneficiary") compliance with the applicable requirements of 47 C.F.R. Part 54, Subparts C, D, and K, Part 36, Subpart F, and Part 32, Subpart B, of the Federal Communications Commission's ("FCC") Rules as well as FCC Orders governing Universal Service Support for the High Cost Program ("HCP") relative to disbursements, of \$887,664, made from the Universal Service Fund ("USF") during the twelve-month period ended June 30, 2007. Our work was performed during the period from April 21, 2010 to July 27, 2010 and our results are as of July 27, 2010.

During this performance audit we noted immaterial noncompliance items or matters that were not in our report dated July 27, 2010. These immaterial noncompliance items are presented for your consideration as comments and recommendations. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to result in improved compliance with the aforementioned requirements and are summarized, along with the views of management, in Attachment 1 of this letter. We did not conduct performance audit procedures over the views of management, and accordingly, we provide no conclusions over these views relative to our audit objective.

Our performance audit procedures are designed primarily to evaluate the Beneficiary's compliance with the aforementioned requirements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions that we hope will be useful to you.

We would be pleased to discuss these comments and recommendations with you at any time.

This report is intended solely for the information and use of Fulton Telephone Company's management and others within the organization, the Universal Service Administrative Company ("USAC") and the FCC, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

**KPMG LLP**

cc: USAC  
FCC

## **Attachment 1**

KPMG's performance audit procedures identified the following immaterial findings. The findings along with the criteria, cause, effect, recommendation and Beneficiary response are as follows:

### **1. HC-2009-FL070-C01: Lack of CPR Details:**

<b>Condition</b>	<p>The Beneficiary did not maintain CPRs, as of December 31, 2004, and December 31, 2005, in sufficient detail for the following accounts:</p> <ul style="list-style-type: none"><li>• General Support Facilities (Account 2110)</li><li>• C&amp;WF (Account 2410)</li></ul>
<b>Criteria</b>	<p>According to 47 C.F.R. § 32.12(b), "The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts. The detail records shall be filed in such manner as to be readily accessible for examination by representatives of this Commission."</p> <p>In addition, according to 47 C.F.R. § 54.202(e), "All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. These records should include the following: data supporting line count filings; historical customer records; fixed asset property accounting records; general ledgers; invoice copies for the purchase and maintenance of equipment; maintenance contracts for the upgrade of equipment; and any other relevant documentation. This documentation must be maintained for at least five years from the receipt of funding."</p> <p>Also, according to 47 C.F.R. § 32.2000(e)(2), "The basic property records must be: (i) Subject to internal accounting controls, (ii) auditable, (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of cost-of-service at any particular point in time, and (iv) maintained throughout the life of the property."</p>
<b>Cause</b>	<p>The Beneficiary did not have an effective process in place to retain CPRs in sufficient detail, including identification of the date assets were placed in service, location of the property and work order number.</p>
<b>Effect</b>	<p>There is no monetary impact on the high cost disbursements received by the Beneficiary during the twelve-month period ended June 30, 2007. KPMG performed alternative testing procedures to assess the reasonableness of the asset balances reported as of December 31,</p>

2004 and December 31, 2005. However, the lack of sufficient financial records for capitalized assets impairs the Beneficiary's ability to readily identify the associated historical cost and accumulated depreciation when assets are sold, scrapped or otherwise retired.

**Recommendation** The Beneficiary should establish and follow an appropriate methodology to properly maintain CPRs in sufficient detail in accordance with applicable FCC Rules and Orders.

**Beneficiary's Response** Fulton will implement procedures to maintain the Continuing Property Records for its General Support Facilities and C&WF assets in sufficient detail for identification of the asset, date placed in service, location of the assets, and work order numbers.

**2. HC-2009-FL070-C02: Lack of Supporting Documentation for Assets**

**Condition** One (\$11,070) of the 45 assets selected for testing did not have supporting documentation. The sample item related to Digital Electronic Switching equipment (CARD STS-I Interface) for a COE project.

**Criteria** According to 47 C.F.R. § 32.12(a) and (b), "The company's financial records shall be kept in accordance with generally accepted accounting principles to the extent permitted by this system of accounts. The company's financial records shall be kept with sufficient particularity to show fully the facts pertaining to all entries in these accounts."

According to 47 C.F.R. § 32.2000(e)(2), "The Beneficiary's basic property records must be (i) subject to internal accounting controls, (ii) auditable, (iii) equal in the aggregate to the total investment reflected in the financial property control accounts as well as the total of the cost allocations supporting the determination of the cost of service at any particular point of time and (iv) maintained throughout the life of the property."

In addition, according to 47 C.F.R. § 54.202(e), "All eligible telecommunications carriers shall retain all records required to demonstrate to auditors that the support received was consistent with the universal service high-cost program rules. These records should include the following: data supporting line count filings; historical customer records; fixed asset property accounting records; general ledgers; invoice copies for the purchase and maintenance of equipment; maintenance contracts for the upgrade or equipment; and any other relevant documentation. This documentation must be maintained for at least five years from the receipt of funding."

<b>Cause</b>	The Beneficiary does not have effective policies and procedures in place to ensure that appropriate records are retained to support asset amounts.
<b>Effect</b>	<p>The exception identified above has an impact on HCL and LSS disbursements. The monetary impact of this finding relative to disbursements made from the USF for the HCP for the twelve-month period ended June 30, 2007 is estimated as follows:</p> <ul style="list-style-type: none"> <li>• HCL disbursements calculated in the 2004 and 2005 data submissions were approximately \$1,194 lower than the disbursements would have been had amounts been reported properly.</li> <li>• LSS disbursements calculated in the 2005 data submission were approximately \$731 higher than the disbursements would have been had amounts been reported properly.</li> </ul>
<b>Recommendation</b>	The Beneficiary should enhance processes governing record retention procedures to ensure compliance with FCC Rules and Orders.
<b>Beneficiary Response</b>	Fulton Telephone Company will review its record retention procedures to ensure they are in compliance with FCC Rules and Orders.

**3. HC-2009-FL070-C03: Incorrect Expense Amounts Reported on Cost Study Allocations**

<b>Condition</b>	The Beneficiary used incorrect expense amounts, by using balances as of December 31, 2004 and December 31, 2005, on the quarterly Part 64 Cost Study to allocate General Support Expenses and Depreciation Expense to the non-regulated activities in 2005-2 and 2006-3 HCL filings instead of using a rolling year balance. The expense adjustments for 2005-2 and 2006-3 HCL filings were overstated by \$1,100 and understated by \$535, respectively.
<b>Criteria</b>	According to 47 C.F.R. § 36.612, "Any rural telephone company, as that term is defined in §51.5 of this chapter, may update the information submitted to the National Exchange Carrier Association (NECA) on July 31st pursuant to §§36.611 (a) through (h) one or more times annually on a rolling year basis according to the schedule, except that rural telephone companies in service areas where an eligible telecommunications carrier has initiated service and has reported line count data pursuant to §54.307(c) of this chapter must update the information submitted to NECA on July 31st pursuant to §36.611(h) according to the schedule. Every non-rural telephone company must update the information submitted to NECA on July 31st pursuant to §36.611 (h) according to the schedule."

<b>Cause</b>	The Beneficiary used December 31 balances for General Support Expenses and Depreciation Expense instead of using rolling twelve-month expenses as of filing date, i.e., 3/31/2005 and 6/60/2006, respectively.
<b>Effect</b>	<p>The exceptions identified above have an impact on HCL disbursements. The monetary impact of this finding relative to disbursements made from the USF for the HCP for the twelve-month period ended June 30, 2007 is estimated as follows:</p> <ul style="list-style-type: none"> <li>• HCL disbursements calculated in the 2004 and 2005 data submissions were approximately \$79 lower than they would have been had amounts been reported properly.</li> </ul>
<b>Recommendation</b>	The Beneficiary should compute twelve-month expenses for the accounts that need Part 64 Cost Study adjustments.
<b>Beneficiary's Response</b>	Since the period of audit, Fulton's Cost Consultant, John Staurulakis, Inc. (JSI) has modified their review procedures to reflect the twelve month expense adjustments applicable to the respective filing.





Universal Service Administrative Company

High Cost and Low Income Division

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### USAC Management Response

Date: August 4, 2010

Subject: Improper Payment Information Act (IPIA) Audit of the High Cost Program of  
FULTON TEL CO, HC-2009-FL-070, Follow-up Audit to HC-2007-234

USAC management has reviewed the IPIA Performance Audit of FULTON TEL CO ("the Carrier"), SAC 280455. The audit firm KPMG LLP has issued recommendations in its follow-up audit report. Our response to the audit is as follows:

#### **Finding 1**

##### **Condition:**

Centralized cost allocations (Management Fees) charged by the Operating Company to the Beneficiary totaling \$2,347,940 per year in 2004 and 2005 were improperly computed. The Operating Company utilized fully distributed cost methodology to arrive at estimated centralized costs to be allocated to the Beneficiary and its affiliates, based on the Operating Company's 2003 financial statements. [please see audit report]

##### **Management Response:**

USAC High Cost management concurs with the auditor. Failure to submit accurate financial data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC recognizes that the Carrier committed to addressing its internal controls related to this finding, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at [hcaudits@usac.org](mailto:hcaudits@usac.org) when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$385,312.

#### **Finding 2**

##### **Condition:**

NexBand did not utilize a fully distributed cost methodology to calculate B&C charges to the Beneficiary for 2004 and 2005.

The Beneficiary incurred B&C costs of \$360,919 and \$309,475 for customer and CABS billing, respectively, in 2004 and \$328,555 and \$286,921 for customer and CABS billing, respectively, in 2005.

The Beneficiary provided KPMG with example customer bills which indicated charges of \$3.00 for customer B&C service and \$2.55 for CABS B&C services.

KPMG was unable to obtain supporting documentation from the Beneficiary for these costs. Accordingly, to assess the reasonableness of the B&C costs, KPMG obtained a comparable contract for a beneficiary with a similar B&C arrangement with its affiliate. In this instance the affiliate charged \$1.50 per customer bill under a fully distributed cost methodology, representing 50% of amount charged by NexBand to the Beneficiary.

We were unable to identify a similar contract for CABS billing. Accordingly, we utilized the ratio noted above to create an estimated fully distributed cost amount for CABS billing. Using the 50% factor, NexBand CABS billing would be approximately \$1.28 per invoice.

**Management Response:**

USAC High Cost management concurs with the auditor. Failure to submit accurate financial data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC management directs the Carrier to implement internal controls necessary to review and reconcile source documentation and reported USF data prior to their submittal, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at [hcaudits@usac.org](mailto:hcaudits@usac.org) when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$14,137.

**Finding 3**

**Condition:**

The Beneficiary did not allocate Property Taxes related to GSF assets used in the conduct of non-regulated activities in 2004 and 2005 as required. The Beneficiary allocated 3% of GSF Assets and related, Accumulated Depreciation, Depreciation Expense and General Support Expenses to non-regulated activities but failed to allocate related Property Taxes. Property Tax balances in 2004 and 2005 were \$81,188 and \$91,712, respectively.

**Management Response:**

USAC High Cost management concurs with the auditor. Failure to submit accurate financial data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC recognizes that the Carrier committed to addressing its internal controls related to this finding, and requests that the Carrier provide a detailed update of specific corrective actions no later than 60 days after receipt of this management response. (Please send to USAC High Cost at [hcaudits@usac.org](mailto:hcaudits@usac.org) when submitting this information.)

As directed by the FCC, USAC is obligated to implement all recommendations arising from the audits including recovery of funds that may have been improperly disbursed to beneficiaries. Therefore, USAC will recover High Cost support in the amount of \$1,254.

**Finding 4**

**Condition:**

The Beneficiary did not record the income tax impacts of Part 64 Cost Study expense adjustments when reporting the respective regulated expense amounts on the USF Forms as required.

**Management Response:**

USAC High Cost management concurs with the auditor. Failure to submit accurate financial data may result in incorrect payments from the USF. It is the obligation of a carrier to ensure that it is providing accurate data consistent with FCC rules.

USAC recognizes the Carrier has addressed its internal controls related to this finding.

**Finding 5**

**Condition:**

The Beneficiary's Federal and State Income Tax expense was overstated in 2004 by \$8,568 and understated in 2005 by \$2,195 in its accounting records and USF Forms.